

VZCZCXRO9902  
RR RUEHLMC  
DE RUEHLM #2105/01 3541222  
ZNR UUUUU ZZH  
R 201222Z DEC 06 ZDK  
FM AMEMBASSY COLOMBO  
TO RUEHC/SECSTATE WASHDC 4985  
INFO RUCPDOG/USDOC WASHDC  
RUEHNE/AMEMBASSY NEW DELHI 0395  
RUEHKA/AMEMBASSY DHAKA 9716  
RUEHIL/AMEMBASSY ISLAMABAD 6652  
RUEHKT/AMEMBASSY KATHMANDU 4712  
RUEHKP/AMCONSUL KARACHI 2082  
RUEHCG/AMCONSUL CHENNAI 7216  
RUEHGV/USMISSION GENEVA 1625  
RUEHC/DEPT OF LABOR WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEHLMC/MILLENNIUM CHALLENGE CORP

UNCLAS SECTION 01 OF 03 COLOMBO 002105

SIPDIS

SENSITIVE, SIPDIS

DOL/ILAB FOR TINA MCCARTER

DRL/IL FOR LAUREN HOLT

STATE FOR SCA/INS

MCC FOR S GROFF, D NASSIRY AND E BURKE

GENEVA PASS USTR

E.O 12958: N/A

TAGS: [ECON](#) [ELAB](#) [EIND](#) [ETRD](#) [PHUM](#) [SOCI](#) [EAID](#) [CE](#)

SUBJECT: Agreement Ends Tea Plantation Strike For Most

¶1. Summary: Sri Lankan tea trade unions have been striking for the last two weeks to demand an increase in wages. On December 19, most unions, representing 80-90 percent of the tea plantation workforce, entered into an agreement for a moderate increase in wages. Some unions, however, did not call off the strike, continuing to demand a larger increase in wages. As tea is one of Sri Lanka's most visible export industries, continuation of the strike and increased international awareness of the terms under which the tea estate workers labor, could jeopardize current exports and the country's reputation for having acceptable labor standards.

#### TERMS OF THE AGREEMENT

-----

¶2. On December 19, the Plantations Collective Agreement was signed between 21 regional plantation companies, and the following trade unions: Ceylon Worker's Congress (CFC), Lanka Jathika Estates Workers' Union (LWEWU), and the Joint Plantation Trade Union Center (JPTUC). The terms of the agreement includes a wage increase of 33 percent amounting to Sri Lankan Rupees (Rs.) 65 (USD 0.60), for a total wage of Rs. 260 (USD 2.40) per day. This constitutes a Rs. 1,625 (USD 15.04) increase for each 25 working-day month. The inclusive-package of Rs. 260 includes the basic salary of Rs. 170 (USD 1.57), guaranteed price share supplement of Rs. 20 (USD 0.18), and an attendance incentive of Rs. 70 (USD 0.65) for those who report to work not less than 75 percent of the 25 working-day month. The agreement, backdated to November 1, 2006, will be effective for the next two years. Following the agreement, President Mahinda Rajapaksa reiterated his intent to appoint a commission to look into the problems of the estate workers.

¶3. To meet the extra expenditure of the wage increase, the companies will incur a cost of Rs. 3 billion (USD 27.7 million) per year. The 21 regional plantation companies maintain a direct employable workforce of approximately 400,000 persons. This amounts to approximately 50 million man days, and thus an increase of Rs. 1

amounts to Rs. 50 million. According to the Employer's Federation of Ceylon (EFC), due to the wage hike, the cost of production per will rise to Rs. 21 per kilo, increasing all costs to approximately Rs. 200 (USD 1.85) per kilo.

#### NON-PARTICIPANTS OF THE AGREEMENT

-----

¶4. A total of 12 unions, representing 80 to 90 percent of the total plantation workers, participated in the December 19 talks. The GSL expects that six other trade unions will follow suit and call off the strike. The JVP-led All Ceylon Estate Workers Union, the National Union of Workers and the Sri Lanka United Workers Front, however, chose not to rescind their demand for a Rs. 300 wage settlement. The strike action over the last two weeks has produced a growing rift between the trade unions.

#### BACKGROUND OF THE DISPUTE

-----

¶5. Since December 4, trade unions representing over 250,000 tea estate workers have been on strike. Wage negotiations between employers and trade unions, which were under a three-year collective agreement, broke down in late November 2006 when workers began a go-slow that hampered production in the mid- and up-country estates. The crux of the issue between the tea estate workers, the plantation companies, and the GSL was the demand to increase the daily wage of the estate workers which was set at Rs. 195 (USD 1.80). As this wage included the Rs. 60 allowance that was tied to attendance, workload, and prices for tea, many workers did not receive the full Rs. 195 even on days they worked the entire agreed 24 working-day month. According to the Central Bank, however, the average daily wage in the informal private sector in tea cultivation was Rs. 304 (approx USD 2.81) in 2004 and Rs. 300 (approx USD 2.77)

COLOMBO 00002105 002 OF 003

in year 2005.

¶6. Discussions between the respective parties initially broke down as trade unions refused to accept the GSL's proposed daily wage of Rs. 165, plus an increased allowance of Rs. 87 that would include the infrequently-received attendance allowance of Rs. 60. The trade unions maintain that their wages should reflect increasing commodity prices and the high cost of living. The tea companies, represented by Sri Lankan business chamber Colombo Tea Traders Association (CTTA), contend that the increase in wages would cost Rs. 5 billion annually, making the industry unviable. As wages comprise 70% of production costs, CTTA argues that such a wage increase would make Sri Lankan tea uncompetitive in the international market.

#### NGOS ALLEGE WAGE DISPUTE REFLECTS HUMAN RIGHTS ISSUE

-----

¶7. Several NGOs argue that the low wage rate is a human rights issue rather than exclusively a labor problem. On December 15, the Asian Human Rights commission issued a statement on Sri Lanka's tea plantation workers calling for a resolution. They contend that current daily wages do not reflect the rising inflation and that workers are not given the access to the GSL's 2005 Budgetary Relief Allowance of Workers Act. According to national data, 30 percent of the estate population lives below the poverty line, as compared to a national average of 19.2 percent of households. A representative from the American Center for International Labor Solidarity stated that the plantation workers are among the lowest paid and most oppressed sectors of Sri Lankan laborers. A majority of the tea workers are descendants of "hill country Tamils" who were brought by the British in the 19th century to work in the plantations. This subgroup is looked down upon by other Sri Lankan Tamils, who trace their roots to the Jaffna region and arrived centuries before the cultivation of tea in Sri Lanka and the resulting migration of hill country Tamils.

#### BACKGROUND ON THE SRI LANKAN TEA SECTOR

-----

¶8. Sri Lanka is presently the world's largest tea exporter, with 21 percent global export market. It is a supplier of bulk teas to the world and competes primarily on the basis of price. The CTTA warns that the strike has a number of serious implications for the tea industry and the economy as a whole. These include a loss of several million dollars revenue to the government and the tea companies; significant loss in export earnings; negative impact on the quality of teas; adverse impact on the cash flow of plantation companies; difficulty in meeting employee wage commitments; and ultimately, jeopardy to the country's credibility as a major international tea exporter and its reputation for good labor practices.

¶9. The losses incurred to date will make it difficult for the tea industry to reach production export targets set for 2007. When the 2007 budget was announced in mid-November 2006, the GSL proposed key initiatives that would enable the industry to reach a revenue target of Rs. 150 billion (approx USD 1.39 billion). The tea industry is the country's second highest exports earner after apparel with 92% of tea exports going to Russia, U.K., Japan and the U.S. The industry will face major setbacks in the beginning of 2007, due to production losses incurred during the strikes. Further, the industry will face an increasing challenge from rival tea producing nations such as India and Kenya, and new competitors such as Vietnam.

#### ADDITIONAL CHALLENGES FOR THE TEA SECTOR

-----

COLOMBO 00002105 003 OF 003

¶10. In addition to the strike action, the tea industry is faced with other challenges. Heavy rains hampered the November production. Further, companies struggle to cope with high fertilizer prices and escalating power rates, with the former adversely affecting the quality of the crop as planters are less inclined to apply the right dosage of fertilizer to the estates. Other increases in the cost of production include the process of upgrading their factories to meet high international standards and other quality assurance practices.

¶11. Comment: Although Sri Lanka is famous for its "Ceylon Tea," which is recognized for its quality, the global market is largely price-based, and significant increases in costs could have a negative impact on Sri Lanka's competitiveness in this sector. Despite the compromise on the already-low compensation for the tea workers', it is encouraging that the government and many key trade unions were able to agree on a wage increase. Further, the contract appears to eliminate the prior requirement that laborers work 24 days in order to receive a significant portion of their paycheck, replacing it with a comparatively generous requirement of working 75% of the up to 25 days that work is available.

BLAKE